

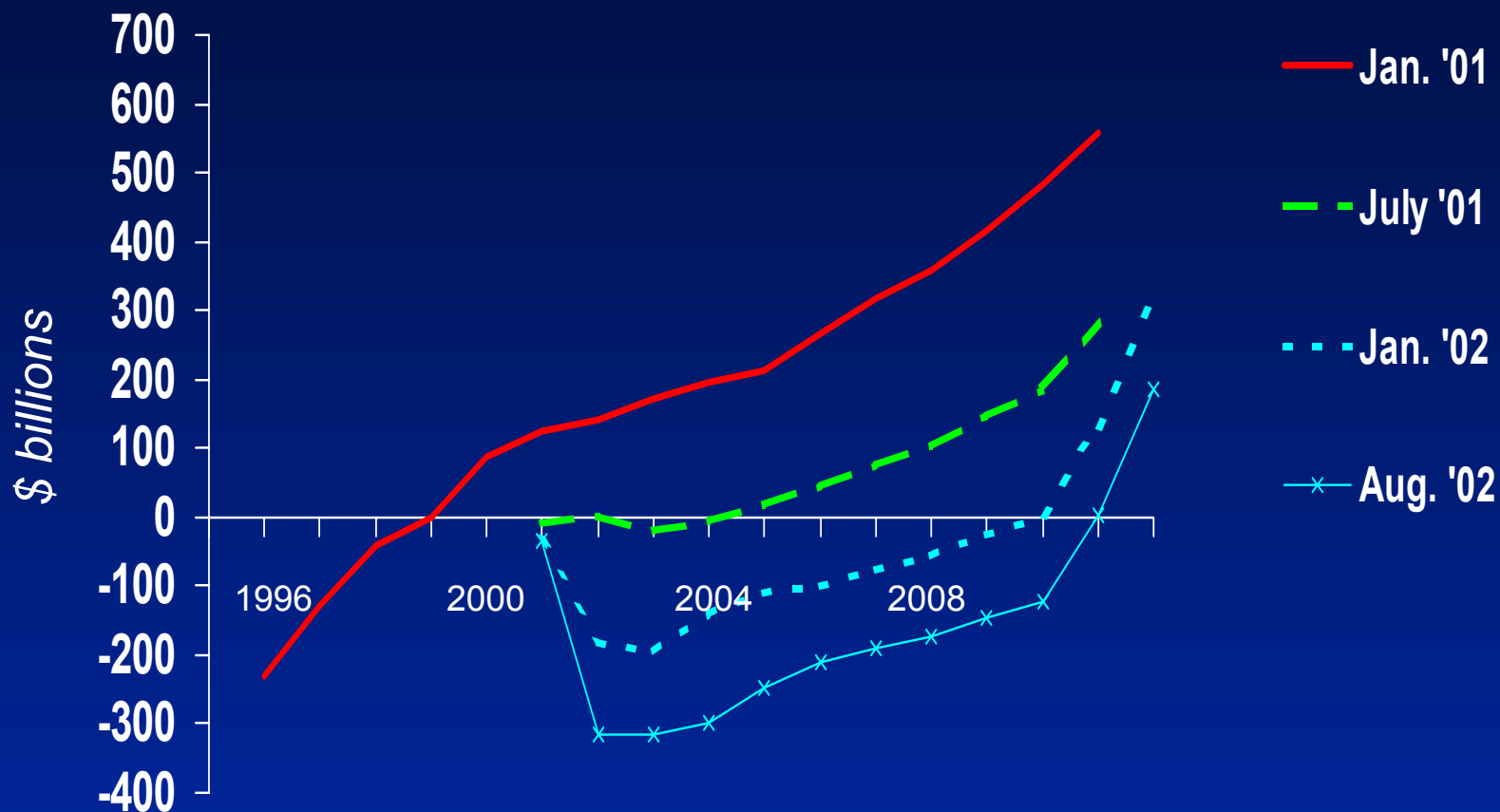
Federal Tax Update



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California Tax Policy Conference
November 14, 2002*

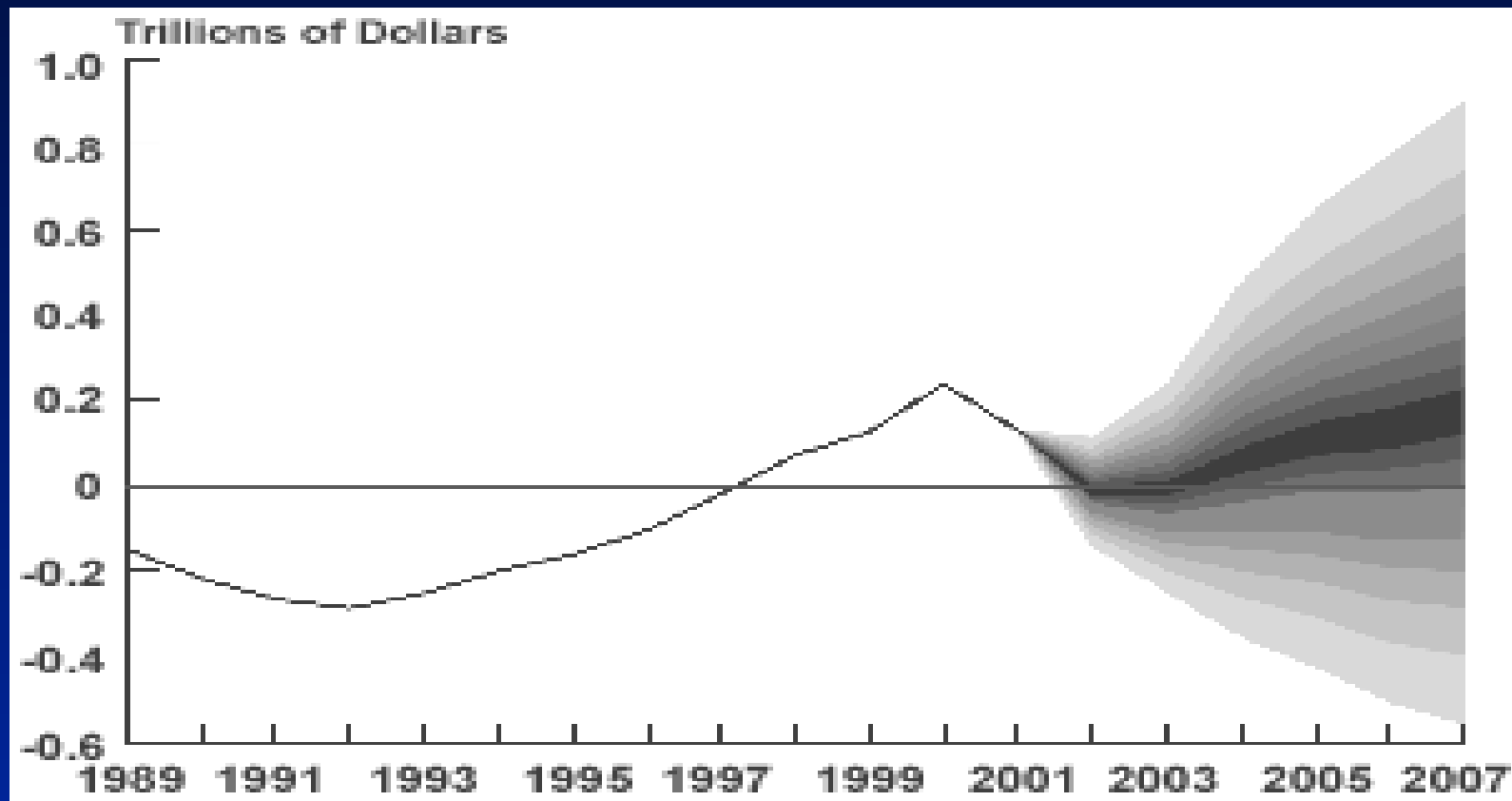
The Disappearing Federal Budget Surplus

On-Budget Surplus (Deficit)



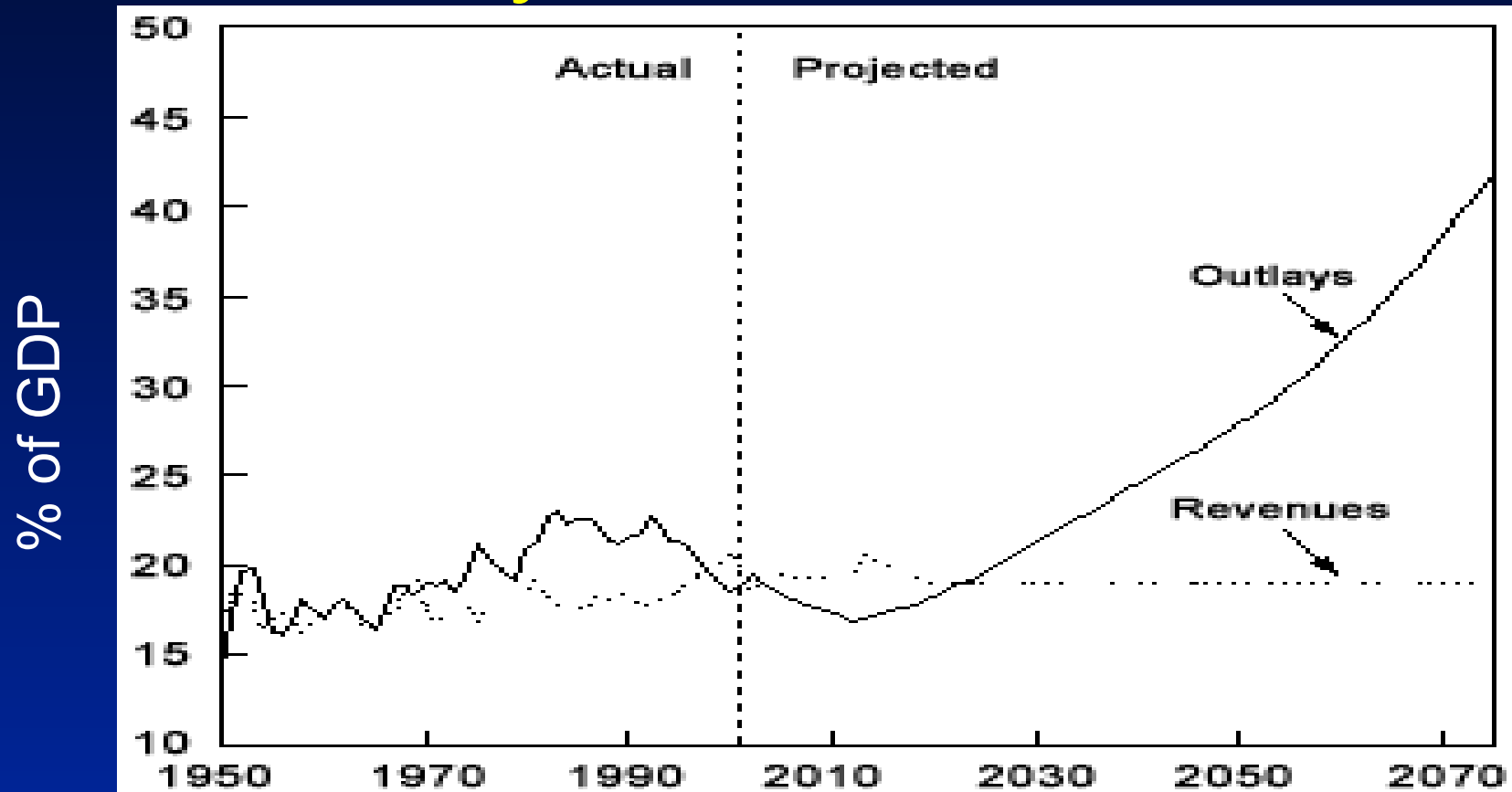
Source: CBO

Uncertainty in the Projections of Total Budget Surplus



Source: CBO Budget and Economic Outlook, Fiscal Years 2003-2012 (January 2002)

Federal Budget Outlays and Revenues



Source: Congressional Budget Office, *a 125-Year Picture of the Federal Government's Share of the Economy, 1950 to 2075*, July 3, 2002

Federal Budget

- Budget enforcement mechanisms extended through April 15, 2003
 - Pay-as-you-go rule
 - Requires 60 votes to pass any tax cut or entitlement spending legislation that would increase the deficit
 - Budget enforcement rule
 - Requires 60 votes to waive budget points of order that can be raised against any tax cut or spending legislation not provided for in the most recent budget resolution

Tax Bills Enacted in 2002

- Job Creation and Worker Assistance Act of 2002 (*Pub. L. 107-147*)
- Trade Act of 2002 (*Pub. L. 107-210*)
- Clergy Housing Allowance Clarification Act of 2002 (*Pub. L. 107-181*)
- H.R. 5596 (awaiting Presidential signature)

Job Creation and Worker Assistance Act

- Bonus depreciation
- Net operating losses
- Alternative minimum tax
- Extension of expiring provisions
- Revenue offsets
- Other

EGTRRA Extension

- What is the current status of extending EGTRRA?
 - H.R. 586: repeal sunset of 2001 tax act
 - H.R. 2143: repeal sunset of estate tax repeal
 - H.R. 4019: repeal sunset of marriage penalty relief
 - H.R. 4800: repeal sunset of adoption credit
 - H.R. 4823: repeal sunset of exclusion for restitution payments to Nazi victims
 - H.R. 4931: repeal sunset of pension and IRA provisions
 - No action in the Senate

Economic and Political Environment

- Weak economy
- Growing Federal budget deficits
- Corporate scandals
- Evenly divided Congress with sharp differences in priorities for spending and taxes

Work in Progress

- Tax Shelters
- International
- Pension Reform
- Other Priorities

Tax Shelter Proposals

- Administration
- House
- Senate

International

- Inversions
- Earnings Stripping
- FSC/ETI
- Simplification?

Other Priorities

- EGTRRA extension
- CARE Act
- Energy
- Simplification

Change in Focus

- 2001: Individuals
- 2002: Businesses
- 2003: ?